

**SURREBUTTAL TESTIMONY AND EXHIBIT OF
LANE KOLLEN
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2020-125-E**

**IN RE: APPLICATION OF DOMINION ENERGY SOUTH CAROLINA,
INCORPORATED FOR ADJUSTMENT OF RATES AND CHARGES**

Q. STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Lane Kollen. I am a Vice President and a Principal of J. Kennedy and Associates, Inc. (“Kennedy and Associates”). My business address is 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS RELATED TO THIS PROCEEDING?

A. Yes. I filed direct testimony and exhibits with the Public Service Commission of South Carolina (“Commission”) on November 10, 2020, on behalf of the South Carolina Office of Regulatory Staff (“ORS”).

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimonies of Dominion Energy South Carolina, Inc. (“DESC” or the “Company”) witnesses Ms. Iris Griffin, Mr. Steven Fetter, and Dr. James Vander Weide regarding the cost of long-term debt; Rebuttal Testimony of DESC witness Ms. Alison Nawrocki regarding Excess Deferred Income Taxes (“EDIT”) and the Company’s calculation of the net operating loss

1 (“NOL”) reflected in the Capital Cost Rider (“CCR”); and Rebuttal Testimony of DESC
2 witness Mr. John Spanos regarding depreciation expense.

3 **Q. PLEASE REITERATE THE BASIS FOR YOUR RECOMMENDATION TO**
4 **DISALLOW THE INCREASE IN THE AVERAGE COST OF LONG-TERM DEBT**
5 **DUE TO POST-MERGER REDEMPTIONS OF OUTSTANDING LONG-TERM**
6 **DEBT ISSUES.**

7 **A.** Immediately after the merger closed in early 2019, the Company initiated the early
8 redemptions of outstanding long-term debt issues that caused an increase in the weighted
9 cost of long-term debt from 5.56% prior to the merger closing to the 6.46% requested in
10 this proceeding.

11 First and foremost, the increase in the cost of long-term debt is an additional and
12 previously undisclosed New Nuclear Development (“NND”) cost and should be disallowed
13 on that basis alone. The Commission foreclosed recovery of additional NND costs through
14 either the base revenue requirement or the CCR revenue requirement in Docket No. 2017-
15 370- E. The early redemptions of long-term debt were caused solely by the disallowances
16 and write-offs of NND and other related costs. The Company wrote off more than \$2
17 billion in disallowed NND construction costs, disallowed NND transmission switchyard
18 costs, disallowed regulatory assets, and other disallowed costs against its common equity.
19 Those NND and other assets no longer earn and never again will earn either a debt return
20 or an equity return. Consequently, the Company redeemed \$1.8 billion of its long-term
21 debt to reflect this reality.

22 Second, the increase in the cost of long-term debt should be considered either a
23 merger transaction or transition cost, neither of which is allowed ratemaking recovery

1 under the merger conditions to which the Company and Dominion Energy, Incorporated
2 (“Dominion Energy”) agreed and the Commission adopted in Docket No. 2017-370-E.
3 The early redemptions were incurred to achieve financial synergies for the Company in the
4 form of savings in interest expense, even though they resulted in an increase in the average
5 cost of the remaining debt, the cost of which the Company is now seeking to pass onto its
6 customers.

7 **Q. HOW DID THE COMPANY’S EARLY REDEMPTIONS OF LONG-TERM DEBT**
8 **INCREASE THE AVERAGE COST OF THE REMAINING LONG-TERM DEBT**
9 **REFLECTED IN THE COMPANY’S REQUEST IN THIS PROCEEDING?**

10 **A.** The average cost of long-term debt is calculated as the interest expense plus
11 amortization of debt discount and premium plus amortization of losses on interest rate
12 swaps plus amortization of losses on reacquisitions (redemptions) in the numerator divided
13 by the total long-term debt outstanding in the denominator. This average cost of debt is
14 used in the calculation of the weighted cost of capital (rate of return) applied to rate base
15 for the “return on” component of the revenue requirement. An increase in the debt
16 component of the cost of capital results in an increase in the revenue requirement and, in
17 this case, if it is allowed, will result in an increase in the base revenue requirement.

18 The increase in the average cost of long-term debt is the result of three factors
19 reflected in the calculation: 1) the redemption of lower cost debt issues, which reduces the
20 interest in the numerator disproportionately less than the reductions in the total long-term
21 debt outstanding in the denominator, 2) the amortization of deferred losses on prior interest
22 rate swaps over a lesser amount of long-term debt outstanding in the denominator, and 3)
23 the new losses on the early redemptions in 2019 and the amortization of the new losses in

1 the numerator over the remaining amount of long-term debt outstanding in the
2 denominator.

3 **Q. WOULD THERE HAVE BEEN AN INCREASE IN THE COST OF DEBT IN THE**
4 **ABSENCE OF THE DISALLOWANCES AND WRITE-OFFS OF THE NND AND**
5 **RELATED COSTS?**

6 **A.** No. There would have been no changes in the numerator or denominator of the
7 calculation since the 5.56% cost of long-term debt was determined in Docket No. 2017-
8 370-E. The Company has not issued new long-term debt since then.

9 **Q. DID ANY OF THE DESC WITNESSES WHO PROVIDED REBUTTAL**
10 **TESTIMONY ON THE COST OF LONG-TERM DEBT ADDRESS OR DENY**
11 **THIS CRITICAL FACT?**

12 **A.** No. Ms. Griffin, the only DESC witness who provided substantive Rebuttal
13 Testimony on the cost of long-term debt, did not address or deny that the increase in the
14 cost was fundamentally an additional NND cost and that it should be disallowed on that
15 basis alone.

16 **Q. MS. GRIFFIN ARGUES THAT THE ACTUAL COST OF DEBT IN THE TEST**
17 **YEAR IS THE ONLY RELEVANT FACTOR IN THIS PROCEEDING.¹ DO YOU**
18 **AGREE?**

19 **A.** No. There are two facts that override this claim. First and foremost, the increase
20 in the cost of debt is an additional NND cost. The Commission determined that no NND
21 costs were recoverable through the base revenue requirement and capped the recovery of
22 the allowed NND costs through the CCR revenue requirement. In addition, the increase in

¹ Rebuttal Testimony of Ms. Griffin at 5.

1 the cost of debt is a merger transaction cost or transition cost, neither of which are allowed
2 ratemaking recovery pursuant to the Commission's Order in Docket No. 2017-370-E.

3 **Q. MS. GRIFFIN CLAIMS THAT THE COMPANY IS ENTITLED TO RECOVERY**
4 **OF THE LOSSES ON INTEREST RATE SWAPS INCURRED BEFORE THE**
5 **EARLY REDEMPTIONS OF LONG-TERM DEBT IN 2019.² PLEASE RESPOND.**

6 **A.** A portion of the losses on early redemptions previously were recorded as losses on
7 interest rate swaps before the early redemptions and then as losses on reacquired debt after
8 the early redemptions. These were included in the 5.56% average cost of long-term debt
9 before the early redemptions in 2019. However, the denominator was \$5.3 billion in that
10 calculation, which included the debt related to the disallowed NND and related costs.
11 When the Company redeemed \$1.8 billion of long-term debt in 2019, it reduced the
12 denominator, but did not proportionately reduce the numerator to exclude the portion of
13 the losses on interest rate swaps as well as the losses on the early redemptions in 2019 to
14 match the reductions in outstanding debt in the denominator, both of which were related to
15 the disallowed NND and related costs. In other words, if the losses in the numerator had
16 been reduced in the same proportion as the outstanding debt in the denominator, there
17 would have been no increase in the cost of debt.

² *Id.* at 5 and 6.

Q. MS. GRIFFIN STATES THAT YOUR CRITICISM OF THE COMPANY FOR FAILING TO DISCLOSE THE PLAN FOR REDEEMING DEBT IN THE MERGER PROCEEDING IN DOCKET NO. 2017-370-E IS NOT “SUPPORTABLE FACTUALLY.”³ PLEASE RESPOND.

A. It is a factual matter that the Company did not disclose the plan for early redemptions of debt or the effect that it would have on the cost of long-term debt in Docket No. 2017-370-E. I cited the Company’s admissions to that effect in my Direct Testimony.

Q. WHY DOES THIS MATTER?

A. It matters because the Company now claims that the Commission did not specifically identify this cost as a merger transaction or transition cost. Of course, if the Company did not disclose its plan for early redemptions of debt or the effect that it would have on the cost of long-term debt in Docket No. 2017-370-E, then the Commission would have no knowledge of that plan or any reason to specifically identify this cost as a merger transaction or transition cost. Nevertheless, as I discussed in my Direct Testimony and address further in this testimony, this increase in the cost of debt is a merger transaction or transition cost and should be disallowed on that basis alone.

Q. MS. GRIFFIN ASSERTS THAT “COSTS THAT MIGHT BE ASSOCIATED WITH RECAPITALIZING DESC’S BALANCE SHEET HAD NOT BEEN QUANTIFIED AT THAT TIME”⁴ (DURING THE MERGER PROCEEDING IN DOCKET NO. 2017-370-E). PLEASE RESPOND.

³ *Id.* at 7.

⁴ *Id.* at 7.

1 **A.** Ms. Griffin is correct in her claim that “costs that might be associated with
2 recapitalizing DESC’s balance sheet had not been quantified at that time,” only if DESC
3 had no plan to do so at that time. However, Ms. Griffin is incorrect that the Company had
4 not quantified the effects of early redemptions of debt even though it had no plan to do so
5 at that time.

6 The Company did provide an analysis of potential debt redemptions and the related
7 costs in response to ORS discovery in Docket No. 2017-370-E.⁵ ORS asked for this
8 information to quantify the savings if the allowed NND costs were refinanced through
9 lower cost securitization debt and the proceeds were used to redeem the equity and
10 outstanding debt originally issued to finance the allowed NND costs. To reiterate, the
11 Company did have the quantifications that Ms. Griffin states that it did not have at the time,
12 but the quantifications were provided in a different context. They were not provided in
13 conjunction with any disclosure that it planned to redeem debt after the merger closed and
14 that it would seek to recover the increases in the cost of debt as an additional NND cost in
15 its next base rate proceeding.

16 **Q. DOES THE COMPANY’S DISCOVERY RESPONSE IN THE MERGER**
17 **PROCEEDING INDICATE THE COMPANY KNEW THAT EARLY**
18 **REDEMPTIONS OF DEBT WOULD INCREASE ITS COST OF DEBT AT THE**
19 **TIME OF THE MERGER PROCEEDING?**

20 **A.** Yes. However, neither Dominion nor the Company informed the Commission that
21 it planned to redeem debt after the merger closed and then would seek to recover those
22 additional NND costs in its next base rate proceeding.

⁵ Response to Utility Rates Request #18 Item 1 in Docket No. 2017-370-E. I have attached a copy of the response as my ORS Surrebuttal Exhibit LK-1.

Q. MS. GRIFFIN CLAIMS THAT THE INCREASED COST OF DEBT DUE TO THE EARLY REDEMPTIONS IN 2019 WAS NOT A “LISTED” COST THAT THE COMPANY AGREED TO EXCLUDE FROM FUTURE RATE RECOVERY.⁶ PLEASE RESPOND.

A. That is irrelevant because the Commission determined the allowed NND costs were recoverable only through the CCR and capped the NND costs, including the cost of debt, and determined that all merger transaction costs and transition costs would be recorded “below the line” and excluded from rate recovery.

Q. MS. GRIFFIN CLAIMS THAT THE INCREASED COST OF DEBT DUE TO THE EARLY REDEMPTIONS IS NOT A MERGER TRANSACTION COST OR TRANSITION COST.⁷ PLEASE RESPOND.

A. The costs were incurred to achieve savings in the Company’s interest expense (“financial synergies”) after the merger, even though the redemptions increased the average cost of the remaining debt, which the Company seeks to recover in this proceeding.

As I noted in my Direct Testimony, the Federal Energy Regulatory Commission (“FERC”) considers “financing costs to refinance existing obligations in order to achieve operational and financial synergies” as transaction costs or transition costs and does not allow the utility to recover these costs after an acquisition or merger.

There is no question that the Company “refinanced” its debt obligations. The early redemptions had to be financed through other sources of financing that provided the cash funds necessary to repay the debtholders and the required premiums. Ms. Griffin states in

⁶ Rebuttal Testimony of Ms. Griffin at 8 and 9.

⁷ *Id.* at 10.

her Rebuttal Testimony that “Dominion Energy, Inc. made \$825 million in equity capital available to DESC to increase the equity portion of the balance sheet and provided additional cash through short-term borrowing mechanisms sufficient to redeem \$1.7 billion in debt.”⁸

Q. DID DR. VANDER WEIDE PROVIDE ANY QUANTITATIVE OR OTHER SUBSTANTIVE ANALYSES IN SUPPORT OF THE COMPANY’S REQUESTED COST OF LONG-TERM DEBT?

A. No. Dr. Vander Weide provided no analyses in support of the Company’s requested cost of long-term debt. He simply noted that the Company’s actual earnings will be less if the Commission reflects the 5.56% cost of long-term debt rather than the Company’s requested 6.46% cost of long-term debt in the base revenue requirement.

Q. DOES THE COMMISSION REGULATE THE COMPANY’S ACTUAL EARNINGS?

A. No. The Company’s actual earnings are the result of its actual revenues less its actual expenses. The Commission regulates the Company’s rates and sets its revenue requirement based on regulatory standards of prudence, used and useful, and reasonableness. The Commission does not allow and does not include in the revenue requirement costs that are not prudent, not used and useful, and/or not just and reasonable. The increase in the cost of long-term debt is an additional NND cost that the Company is not allowed to recover either in the base revenue requirement or the CCR revenue requirement.

⁸ *Id.* at 2 and 3.

1 **Q. DR. VANDER WEIDE ASSERTS THAT THE 5.56% COST OF LONG-TERM**
2 **DEBT IS “ARBITRARY.”⁹ IS THAT CORRECT?**

3 **A.** No. It is the reasonable cost of long-term debt after removing the 0.90% increase
4 specifically caused by the early redemptions of certain long-term debt issues used to
5 finance the NND costs that were disallowed for ratemaking purposes.

6 **Q. DR. VANDER WEIDE ASSERTS THAT THE 5.56% COST OF LONG-TERM**
7 **DEBT WOULD BE INCONSISTENT WITH THE *HOPE* AND *BLUEFIELD* FAIR**
8 **RATE OF RETURN STANDARDS.¹⁰ DO YOU AGREE?**

9 **A.** No. Neither the *Hope* nor *Bluefield* fair rate of return standards require the
10 Commission to include costs that are not prudent, not used and useful, not just and
11 reasonable, and/or foreclosed by a prior final Commission order in the base revenue
12 requirement or any other revenue requirement. If the Commission had applied Dr. Vander
13 Weide’s interpretation of this standard in the cancellation and merger case, then it
14 effectively would have been precluded from disallowing any of the NND costs.

15 Of course, the Company itself has excluded all disallowed and allowed NND costs
16 from the base revenue requirement in this proceeding, except for the increase in the cost of
17 long-term debt, and has excluded all other NND-related costs, including NND litigation
18 costs. The Company’s exclusion of all other NND-related costs demonstrates that the
19 Company does not share Dr. Vander Weide’s interpretation of the *Hope* and *Bluefield* fair
20 rate of return standards.

⁹ Rebuttal Testimony of Dr. Vander Weide at 99.

¹⁰ *Id.* at 100.

1 **Q. DR. VANDER WEIDE ASSERTS THAT YOU RECOMMEND A CAPITAL**
2 **STRUCTURE OF 50% DEBT AND 50% EQUITY.¹¹ IS THAT YOUR**
3 **RECOMMENDATION OR THAT OF ANOTHER ORS WITNESS?**

4 **A.** Dr. Vander Weide is mistaken. I did not address the capital structure in my Direct
5 Testimony. ORS witness Dr. J. Randall Woolridge addresses the reasonable capital
6 structure and made this recommendation.

7 **Q. DID MR. FETTER PROVIDE ANY QUANTITATIVE OR OTHER**
8 **SUBSTANTIVE ANALYSES IN SUPPORT OF THE COMPANY’S REQUESTED**
9 **COST OF LONG-TERM DEBT?**

10 **A.** No. Mr. Fetter provided no analyses. He simply noted that the ORS
11 recommendation for the cost of long-term debt would not “help” the Company’s credit
12 ratings, all else equal.¹² I am not aware of any regulatory standard or principle that requires
13 the Commission to “help” the Company’s credit ratings, let alone allow or require recovery
14 of additional NND costs through the base revenue requirement, especially given that the
15 Commission has already ruled on this matter and recovery of the allowed NND costs is
16 limited to and capped or fixed within the CCR.

17 **Q. MR. FETTER STATES THAT “MR. KOLLEN SEEMS TO IMPLY THAT THE**
18 **COMPANY PICKED AND CHOSE REDEMPTIONS TO DRIVE UP ITS**
19 **OVERALL COST OF LONG-TERM DEBT.”¹³ IS THAT YOUR TESTIMONY?**

20 **A.** No. This is a strawman and mischaracterization of my testimony. I doubt that the
21 Company’s objective was to increase its average cost of long-term debt; nevertheless, the

¹¹ *Id.* at 100.

¹² Rebuttal Testimony of Mr. Fetter at 22.

¹³ *Id.* at 23.

1 Company did pick and choose the issues that it redeemed, these early redemptions
2 increased the average cost, and the increase in cost was due, in part, to the Company's
3 selection of the lower cost issues for early redemption. This fact was confirmed by Ms.
4 Griffin in her Rebuttal Testimony wherein she described the Company's selection of debt
5 issues for early redemption and states "This generally resulted in bonds being redeemed
6 that had lower coupon rates."¹⁴ The Company also confirmed this fact in response to ORS
7 discovery, wherein it acknowledged that "[t]he debt targeted for repurchase was that which
8 required the lowest premium to redeem."¹⁵

9 **Q. MR. FETTER STATES THAT HE IS "OF THE INFORMED VIEW THAT THE**
10 **DEBT RETIREMENTS THAT OCCURRED WERE PRUDENTLY MANAGED BY**
11 **THE COMPANY AND ITS ADVISORS."**¹⁶ **PLEASE RESPOND.**

12 **A.** Mr. Fetter offered no support for this assertion. He provided no independent
13 analyses and offered no analyses of the review performed by the Company's financial
14 advisors, the debt issues that were selected by the Company and its advisors for early
15 redemption, or the effect that the selections had on the average cost of debt. It is irrefutable
16 that the Company selected lower cost debt issues for early redemption. It is irrefutable that
17 the early redemptions and the selections of the debt issues for early redemption increased
18 the average cost of the remaining outstanding debt.

19 Regardless of Mr. Fetter's lack of support for this assertion, it is irrelevant. The
20 issue before the Commission is not whether the early redemptions were "prudently
21 managed," but whether the increase in the cost of debt was an additional and undisclosed

¹⁴ Rebuttal Testimony of Ms. Griffin at 4.

¹⁵ Response to ORS Request 6-4. I previously attached a copy of that response as Exhibit LK-4 to my Direct Testimony.

¹⁶ Rebuttal Testimony of Mr. Fetter at 23.

1 NND cost that is not recoverable and whether it is a merger transaction or transition cost
2 that is not recoverable.

3 **Q. MS. NAWROCKI STATES THAT THE AMORTIZATION OF UNPROTECTED**
4 **PROPERTY-RELATED EDIT OVER FIVE YEARS DOES NOT “ACHIEVE A**
5 **FAIR BALANCE AMONG GENERATIONS OF CUSTOMERS.”¹⁷ IS THAT**
6 **CORRECT?**

7 **A.** No. In my Direct Testimony, I explained that the EDIT is a refund due to
8 customers for their overpayments of income taxes in prior years that now never will be
9 paid to the federal government in the future because of the lower federal income tax rates
10 pursuant to the Tax Cuts and Jobs Act (“TCJA”). Thus, the equitable disposition of these
11 refunds is to the customers who overpaid in those prior years, not to the customers who
12 will take service over the next 50 years, which is the amortization period that the Company
13 presently uses under the Average Rate Assumption Method (“ARAM”).

14 **Q. MS. NAWROCKI USES AN EXAMPLE TO ILLUSTRATE HER ARGUMENT**
15 **THAT THE UNPROTECTED PROPERTY RELATED EDIT SHOULD BE**
16 **AMORTIZED OVER THE SAME PERIOD AS THE REMAINING**
17 **DEPRECIATION LIVES OF THE UNDERLYING PROPERTY.¹⁸ PLEASE**
18 **RESPOND.**

19 **A.** The illustration is based on a presumption that the EDIT is somehow a “buydown”
20 or credit to the cost of service over the lives of the underlying property. However, this is
21 a false premise because it ignores the fact that the EDIT is a refund due to customers now
22 for their overpayments of income taxes they made in prior years; it is not something that

¹⁷ Rebuttal Testimony of Ms. Nawrocki at 6.

¹⁸ *Id.* at 7 and 8.

1 attaches to the physical property and/or somehow is tied to the service lives of the
2 underlying property.

3 **Q. DOES YOUR RECOMMENDATION “DENY” THE EDIT REFUND TO FUTURE**
4 **CUSTOMERS, AS MS. NAWROCKI CLAIMS?¹⁹**

5 **A.** No. Again, this claim is based on the false premise that the EDIT is somehow a
6 buydown or “credit” to the cost of physical assets over their service lives. The EDIT is a
7 refund. It is a fact that the longer the refund period, the fewer residential customers who
8 still will be alive and the fewer commercial and industrial customers that still will be in
9 business to receive the full refunds over the 50-year amortization and refund period
10 proposed by the Company.

11 **Q. MS. NAWROCKI UTILIZES 25 YEARS AS THE AMORTIZATION AND**
12 **REFUND PERIOD FOR THE EDIT IN HER EXAMPLE.²⁰ IS THIS CONSISTENT**
13 **WITH THE COMPANY’S PROPOSED AMORTIZATION AND REFUND**
14 **PERIOD USING THE ARAM?**

15 **A.** No. First, as I noted in my Direct Testimony, the Company proposes to continue
16 the amortization and refund of this EDIT in the future over the same 50 years that is
17 reflected in the test year. That is twice as long as the 25-year period utilized by Ms.
18 Nawrocki. Second, there is no physical life for the EDIT because it is not tethered to any
19 physical assets. The EDIT was collected from customers when it was tethered to physical
20 assets, but it now is a refund of the amounts collected in prior years and the refund no
21 longer is related to or tethered to any physical assets.

¹⁹ *Id.* at 8.

²⁰ *Id.* at 8.

**Q. MS. NAWROCKI CLAIMS THAT “IT IS NOT IMMEDIATELY CLEAR TO
DESC HOW EITHER OF THE COMPUTATIONS WERE PERFORMED
[KOLLEN OR M. GARRETT].”²¹ IS THAT STATEMENT ACCURATE?**

A. No. ORS provided my schedules and workpapers in live Excel workbook format in response to DESC discovery on a timely basis and well before Ms. Nawrocki’s Rebuttal Testimony was filed. My workpapers relied on the Company’s quantifications by temporary difference at December 31, 2017 and an amortization of those EDIT amounts through the end of 2020 and then an amortization over five years starting when base rates are reset. Regardless, the Company has the workpapers detailing my calculations and had the capability to provide any refinement of either my calculations or Mr. Garrett’s calculations in its Rebuttal Testimony, yet it chose not to do so. Nevertheless, if such a refinement is necessary, it can do so if required by the Commission in a compliance filing.

**Q. MS. NAWROCKI COMPLAINS THAT YOU DID NOT INCLUDE AN INCREASE
IN RATE BASE TO REFLECT THE SHORTER AMORTIZATION AND REFUND
PERIOD THAT YOU RECOMMEND AND STATES YOUR CLAIM THAT THIS
IS CONSISTENT WITH THE COMPANY’S FILING IS INCORRECT.²² PLEASE
RESPOND.**

A. Ms. Nawrocki’s complaint really is against the Company itself and the fact that it did not include an increase in rate base post-test year based on its longer amortization and refund period. Ms. Nawrocki’s claim that the Company included an adjustment to increase rate base for its longer amortization and refund period is limited to the update of plant balances, accumulated depreciation, and ADIT amounts through September 30, 2020

²¹ *Id.* at 10.

²² Rebuttal Testimony of Ms. Nawrocki at 10.

provided in response to ORS discovery and does not extend beyond that date. ORS reflected the updates in these balances in its recommendations. My recommendation does not affect the rate base as of September 30, 2020 and would not be effective until early 2021 when base rates are reset in this proceeding.

Q. DID MS. NAWROCKI OR ANY OTHER DESC WITNESS ADDRESS YOUR RECOMMENDATION THAT THE COMMISSION MEMORIALIZE CERTAIN DECISION RULES RELATED TO THE UTILIZATION OF THE NOL CARRYFORWARD AND THE ADIT, NOL EDIT, AND OFFSETTING LIABILITY ADIT INCLUDED IN RATE BASE IN THE CCR AND THAT HAVE BEEN APPLIED BY THE COMPANY SINCE FEBRUARY 2019?

A. No. The Company does not appear to oppose this recommendation.

Q. MS. NAWROCKI AGREES THAT THE COMPANY MADE AN ERROR IN THE CALCULATION OF THE CCR REVENUE REQUIREMENTS FOR THE MONTHS FEBRUARY THROUGH DECEMBER 2019 AND THAT IT SHOULD BE CORRECTED THROUGH THE RESTORATION OF THE NND REGULATORY LIABILITY.²³ DO YOU CONSIDER THIS ISSUE RESOLVED AT THIS POINT?

A. Yes, provided that the Company agrees with my quantification of the adjustment necessary to restore (increase) the NND regulatory liability. Ms. Nawrocki cited my quantification of the correction but did not state that she agreed with it. If she does agree with my quantification, then I consider this issue resolved, subject to verification by ORS

²³ *Id.* at 11.

1 that the correction and restoration of the NND regulatory liability was implemented
2 properly.

3 **Q. MR. SPANOS COMPLAINS THAT YOU DID NOT “CONDUCT A**
4 **DEPRECIATION STUDY NOR DOES HE REVIEW ANY COMPANY PLANS**
5 **FOR LIFE CHARACTERISTICS OR NET SALVAGE PARAMETERS.”²⁴ ARE**
6 **THESE VALID CRITICISMS?**

7 **A.** No. I was not retained by ORS to perform a depreciation study. I simply calculated
8 the depreciation expense using the depreciation rates developed by ORS witness Mr. David
9 Garrett and the Company’s actual plant in service by plant account provided by the
10 Company.

11 **Q. MR. SPANOS STATES THAT YOU EXCLUDED “PLANT IN SERVICE AND**
12 **DEPRECIATION EXPENSE ON TRANSMISSION RELATED ASSETS.”²⁵ IS**
13 **THAT CORRECT?**

14 **A.** No. Mr. Spanos is mistaken. The ORS calculation of depreciation expense does
15 not exclude “plant in service and depreciation expense on transmission related assets.”

16 Mr. Spanos performed a depreciation study for the Company. He did not calculate
17 the depreciation expense or the ratemaking adjustments reflected in the Company’s filing
18 and apparently was not aware that the Company had multiple adjustments to depreciation
19 expense and that the depreciation expense on the NND transmission assets was separately
20 calculated and reflected in a separate ratemaking adjustment. The Company calculated the
21 annualized depreciation expense using the depreciation rates developed by Mr. Spanos in
22 Adjustment #6, except for the depreciation expense for certain plant amounts and accounts

²⁴ Rebuttal Testimony of Mr. Spanos at 47.

²⁵ *Id.*

1 that were included in other Adjustments. More specifically, the Company included the
2 depreciation expense on the NND transmission plant in service in Adjustment #24.

3 To ensure consistency with the Company's filing and its calculations of
4 depreciation expense included in Adjustments #6 and #24, I calculated the depreciation
5 expense using the depreciation rates developed by Mr. Garrett on the NND transmission
6 plant in service in Adjustment #24.

7 **Q. MR. SPANOS ASSERTS THAT YOU DID NOT CONDUCT A DEPRECIATION**
8 **STUDY OR REVIEW ANY LIFE CHARACTERISTICS OR NET SALVAGE**
9 **PERCENTAGES, YET HE CRITICIZES YOU FOR SUPPORTING MR.**
10 **GARRETT'S DEPRECIATION PARAMETERS, AND SPECIFICALLY,**
11 **TERMINAL NET SALVAGE.²⁶ DID YOU ADDRESS DEPRECIATION**
12 **PARAMETERS, AND SPECIFICALLY, TERMINAL NET SALVAGE IN YOUR**
13 **DIRECT TESTIMONY OR PERFORM AN INDEPENDENT REVIEW OF MR.**
14 **GARRETT'S DEPRECIATION STUDY?**

15 **A.** No. I was not retained to perform a depreciation study, direct or oversee Mr.
16 Garrett's study, or independently assess his proposed depreciation rates, nor did I do so.

17 **Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON**
18 **INFORMATION THAT BECOMES AVAILABLE?**

19 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental
20 testimony should new information not previously provided by the Company, or other
21 sources, becomes available.

²⁶ *Id.* at 47 and 48.

- 1 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**
- 2 **A. Yes.**

UTILITY RATES REQUEST #18

**ORS UTILITY RATES REQUEST FORM****Please acknowledge receipt be E-Mail**

DATE: September 10, 2018

TO: Byron Hinson

UTILITY: SCE&G - Docket No. 2017-370-E

FROM: Dawn Hipp

PURPOSE: Bonds and Long-Term Debt

Pursuant to S.C. Code Ann. §§ 58-4-55 (Supp. 2017), 58-27-160 (2015), §§ 58-33-230(F), 58-33-277(B), 58-27-1560, 58-27-1570, 58-27-1580, 58-27-160 and 58-27-190 (2015) the South Carolina Office of Regulatory Staff hereby makes the following request(s):

REQUEST THE FOLLOWING ITEMS BE PROVIDED BY: Noon on September 12, 2018

- 1) Provide a calculation of the loss/gain, including any make-whole payments included in the loss/gain, for each of the Company's outstanding bond issues under the assumption that the issue will be called/reacquired and redeemed at December 31, 2018. Provide a copy of each bond indenture and all other agreements that set forth terms for any such call/reacquisition and redemption, including, but not limited to, make whole payments.

Response: See the attached 9-10-18 Redemption Matrix, the 1993 Indenture and three Supplements, and the prospectus supplements for each bond issuance. SCE&G cannot perform the requested calculation without knowledge of the actual market conditions that will exist on December 31, 2018. SCE&G has performed the requested calculation as of September 10, 2018, and believes this should be a reasonable approximation of the make-whole payments assuming a similar interest rate environment on December 31, 2018.

- 2) Provide the weighted average cost of long-term debt at August 31, 2018, including the two new debt issuances in August 2018. Provide the electronic workpapers used for this calculation, including a listing of each outstanding debt issue, the net proceeds, unamortized debt issuance, discount, premium, coupon rate, and all other data and calculations used to calculate the cost of each issue and the weighted cost of debt for all issues.

Response: See attached URR 18 Response No. 2.

Thank you,

Dawn Hipp

Series	Issue Date	Original Principal	Outstanding	Maturity Date	Rate	Make-Whole Redemption (Prior to...)	Make-Whole Premium (bps)	Call Date (On or After...)	Call Price
SCEG									
SCE&G First Mortgage Bonds	11/6/2003	250,000,000	250,000,000	11/1/2018	5.250%	Maturity	15.0		
SCE&G First Mortgage Bonds	10/2/2008	300,000,000	300,000,000	11/1/2018	6.500%	Maturity	40.0		
SCE&G First Mortgage Bonds	11/18/2011	30,000,000	30,000,000	10/18/2021	3.220%	7/18/2021	20.0	7/18/2021	100.00
SCE&G First Mortgage Bonds	1/31/2002	300,000,000	300,000,000	2/1/2032	6.625%	Maturity	20.0		
SCE&G First Mortgage Bonds	1/23/2003	200,000,000	200,000,000	1/15/2033	5.800%	Maturity	20.0		
SCE&G First Mortgage Bonds	5/21/2003	300,000,000	300,000,000	5/15/2033	5.300%	Maturity	20.0		
SCE&G First Mortgage Bonds	3/8/2005	100,000,000	100,000,000	3/1/2035	5.250%	Maturity	10.0		
SCE&G First Mortgage Bonds	6/27/2006	125,000,000	125,000,000	7/1/2036	6.250%	Maturity	15.0		
SCE&G First Mortgage Bonds	1/14/2008	250,000,000	250,000,000	1/15/2038	6.050%	Maturity	30.0		
SCE&G First Mortgage Bonds (Reopen)	6/24/2008	110,000,000	110,000,000	1/15/2038	6.050%	Maturity	30.0		
SCE&G First Mortgage Bonds (Reopen)	3/17/2009	175,000,000	175,000,000	1/15/2038	6.050%	Maturity	30.0		
SCE&G First Mortgage Bonds	12/9/2009	150,000,000	150,000,000	12/15/2039	5.500%	Maturity	20.0		
SCE&G First Mortgage Bonds	1/27/2011	250,000,000	250,000,000	2/1/2041	5.450%	8/1/2040	15.0	8/1/2040	100.00
SCE&G First Mortgage Bonds (Reopen)	5/24/2011	100,000,000	100,000,000	2/1/2041	5.450%	8/1/2040	15.0	8/1/2040	100.00
SCE&G First Mortgage Bonds	1/30/2012	250,000,000	250,000,000	2/1/2042	4.350%	8/1/2041	20.0	8/1/2041	100.00
SCE&G First Mortgage Bonds (Reopen)	7/13/2012	250,000,000	250,000,000	2/1/2042	4.350%	8/1/2041	20.0	8/1/2041	100.00
SCE&G First Mortgage Bonds	6/14/2013	400,000,000	400,000,000	6/15/2043	4.600%	12/15/2042	20.0	12/15/2042	100.00
SCE&G First Mortgage Bonds	5/27/2014	300,000,000	300,000,000	6/1/2064	4.500%	12/1/2063	20.0	12/1/2063	100.00
SCE&G First Mortgage Bonds (Reopen)	6/13/2016	75,000,000	75,000,000	6/1/2064	4.500%	12/1/2063	20.0	12/1/2063	100.00
SCE&G First Mortgage Bonds	5/22/2015	500,000,000	500,000,000	6/1/2065	5.100%	12/1/2064	35.0	12/1/2064	100.00
SCE&G First Mortgage Bonds	6/13/2016	425,000,000	425,000,000	6/15/2046	4.100%	12/15/2045	25.0	12/15/2045	100.00
SCE&G First Mortgage Bonds	8/17/2018	300,000,000	300,000,000	8/15/2021	3.500%	Maturity	15.0		
SCE&G First Mortgage Bonds	8/17/2018	400,000,000	400,000,000	8/15/2028	4.250%	5/15/2028	25.0	5/15/2028	100.00
		5,540,000,000	5,540,000,000						

